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HSBC India Services PMI™

Growth of Indian service sector marked at the start of 2011.

Key findings:

- Expansion of new business gathered pace in January.
- Job creation supported by strong new work intakes.
- Input price inflation second-fastest in series history.

January survey data, compiled by Markit for HSBC, signalled a further expansion of activity in the Indian service sector. The rise in activity was marked, and stronger than in the previous survey period, but below the average rate of growth indicated during 2010. Employment rose again, albeit only modestly, as new business and work-in-hand increased. Meanwhile, input and output prices both rose at faster rates than in the previous survey period, contributing to increased inflationary pressure.

The headline seasonally adjusted HSBC Business Activity Index posted 58.1 in January, up marginally from December's 57.7. The latest figure pointed to a marked expansion of Indian service sector activity that was in line with the long-run average for the series. Growth has now been sustained since May 2009. On a sub-sector level, all six monitored recorded an increase in activity, the fastest of which was in Post & Telecommunications.

Indian service providers reported a marked rise in incoming new business during January. Panellists attributed the latest expansion in new work intakes, which was the twenty-first in successive months, to ongoing improvements in general economic conditions. The rate of new business growth was slightly stronger than the historical average for the series.

The rise in new work intakes supported the marked increase in activity seen during the month. However, there was a further accumulation of outstanding business, suggesting that existing levels of staff at companies were unable to fully meet the rise in new work. The extent to which backlogs increased

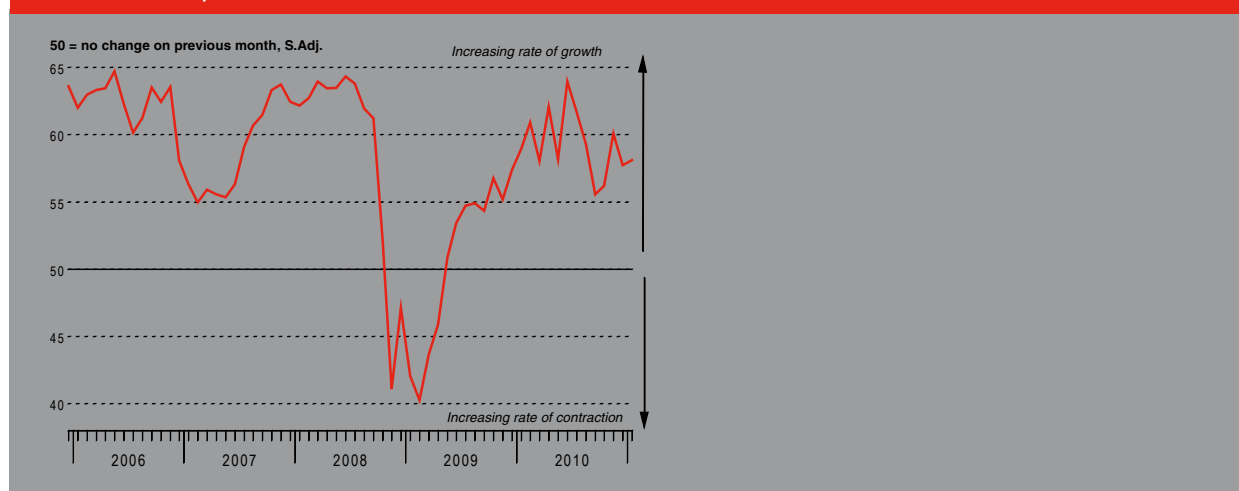
was unchanged on the month, and broadly similar to the long-run trend.

Reflective of further growth in new work intakes, and a rise in outstanding business, January data signalled a modest increase in employment in the Indian service sector. The latest rise in staffing levels was the strongest in seven months but, indicative of the mild nature of the increase, the majority of panellists noted that employment was unchanged since December.

Input prices faced by service companies in India increased substantially during January. Anecdotal evidence suggested that higher fuel and staff costs, alongside rising prices for vegetables and medicinal products, had contributed to input cost inflation. Moreover, the latest increase in costs was the second-strongest in the series history. Panellists also noted a marked rise in charges during the month. The rise in companies' rates was the fastest since April 2010, and above the long-run series average, but remained slower than the increase in costs.

Companies in the Indian service sector were confident in January that activity would increase over the next twelve months. Ongoing improvements in economic conditions, increased marketing campaigns and the high quality of services provided are all expected to support the projected expansion in activity. The degree of positive sentiment indicated was the strongest in five months, and above the historical average for the series.

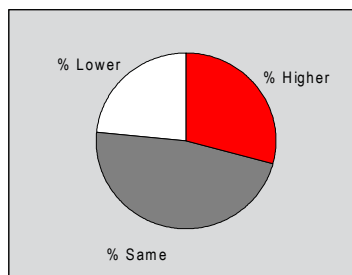
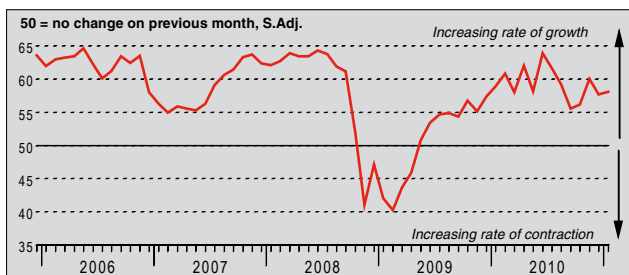
Business Activity Index



The survey uses a methodology identical to the HSBC India Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Indian services economy.

Business Activity Index

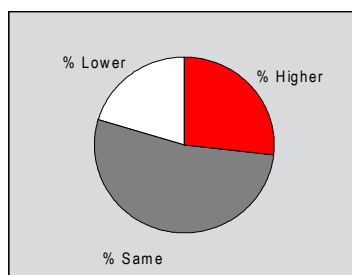
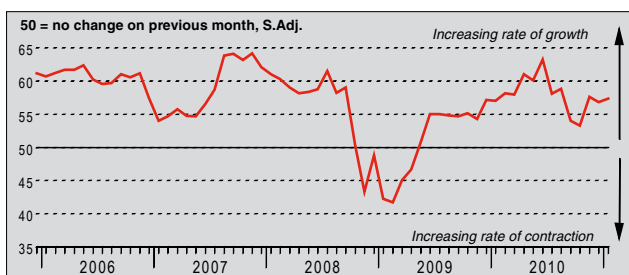
Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



Service companies in India reported a rise in activity during January, citing strong new order growth as the main driver of the marked expansion. With approximately 29% of panellists indicating that output was higher than in the previous month, the rate of increase was faster than in December, but below the four-month high recorded in November. Nonetheless, the rise was in line with the long-run series average. Output has now grown in each survey period since May 2009. On a sub-sector basis, Post & Telecommunications was the strongest performing.

New Business Index

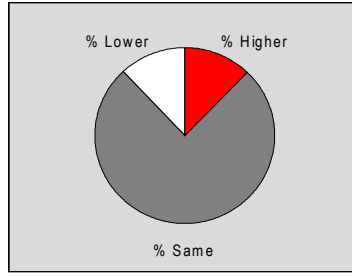
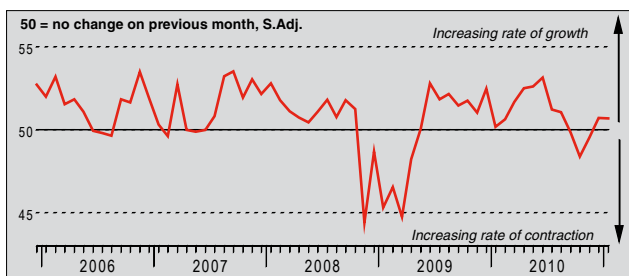
Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.



January data signalled a marked rise in incoming new business received by service providers in India, extending the sequence of sustained expansion to twenty-one months. Moreover, the rate of growth was the second-strongest in five months, and slightly above the long-run trend. Panellists commented that customer demand had improved due to ongoing improvements in general economic conditions. Five of the six sub-sectors indicated a rise in new business, the strongest of which was in Post & Telecommunications. Other Services was the only category to record a reduction in new work intakes.

Outstanding Business Index

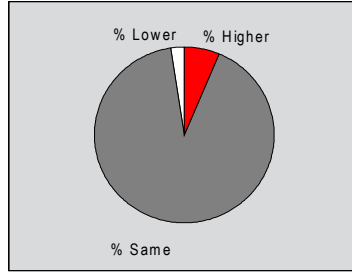
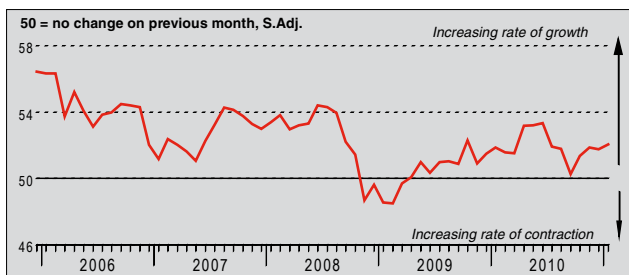
Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



Outstanding business at service companies in India increased marginally during January. The rate at which work-in-hand accumulated was unchanged from the previous month and broadly similar to the historical average for the series. Approximately 12% of panellists indicated that outstanding business at their firms had risen during the month, noting that this was led by increased workloads. A rise in backlogs of work was reported by three sub-sectors – Transport & Storage, Financial Intermediation, and Renting & Business Services.

Employment Index

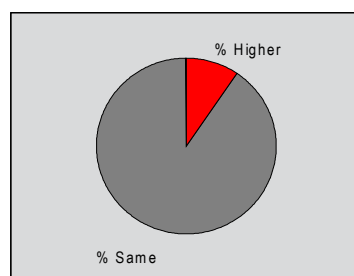
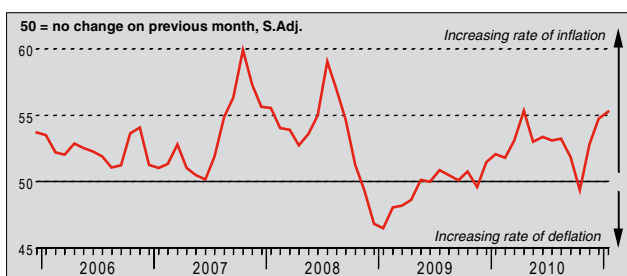
Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



January data signalled a modest rise in employment in the Indian service sector. The rate at which staffing levels rose was the strongest in seven months, but slightly weak in the context of historical data. Anecdotal evidence suggested that a further increase in new work intakes had boosted job creation in the month. However, in line with the modest nature of the rise in employment, the majority of panellists (approximately 91%) indicated that staffing levels were unchanged on the month. Panellists in the Transport & Storage sector reported the largest rise in employment.

Prices Charged Index

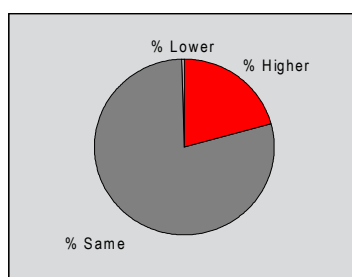
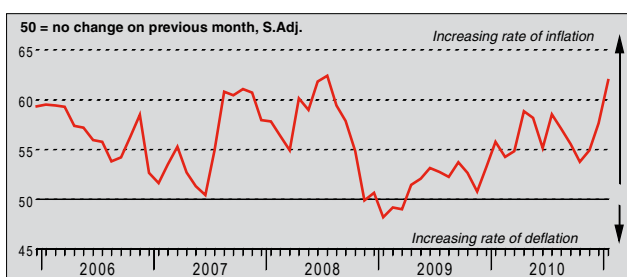
Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.



Indian service providers increased their charges markedly during January. Inflation of service companies' rates has now been recorded for three successive months, but the latest increase was the strongest since April 2010 and above the long-run series average. Anecdotal evidence suggested that a further rise in input prices had contributed to the latest increase in charges. All six of the sub-sectors indicated an increase in rates, although the strongest was in Hotels & Restaurants.

Input Prices Index

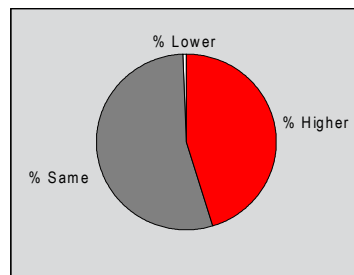
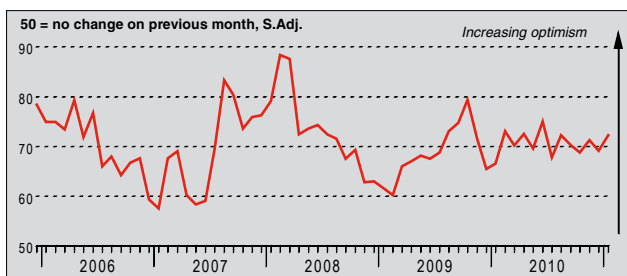
Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



Input prices faced by service companies in India increased substantially during January. Moreover, the rate of input cost inflation accelerated to the fastest since July 2008 (the sharpest increase in the series history). Approximately 21% of panellists indicated that costs were higher than in the previous month, attributing this to a rise in fuel and staff costs, and higher prices for vegetables and medicinal products. Companies in the Hotels & Restaurants sector saw the largest rise in input costs, although marked input cost inflation was recorded in all six sub-sectors monitored. Overall, input costs have now increased in each month since April 2009.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?



Service companies in India were optimistic in January that activity would increase over the next twelve months. Ongoing improvements in economic conditions, increased marketing campaigns and the high quality of services were cited as being the main factors expected to boost activity. The degree of positive sentiment indicated was the strongest in five months, and above the long-run trend. Companies in the Hotels & Restaurants sub-sector were the most confident about a rise in activity over the next year.

Notes on the Data and Method of Presentation

The India Services PMI™ covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants. Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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